Great River Soy's conversion from a co-op to an LLC did not raise enough working capital, and it is currently for sale.

Great River Soy falls victim to soaring soybean oil prices

By Anne Todd
USDA Rural Development

Less than a year ago, in August 2007, the Great River Soy Processing Cooperative, a farmer-owned biodiesel production co-op in Lilbourn, Mo., was preparing to begin operation. Great River Soy was one of three biodiesel plants located in the southeastern Missouri "Bootheel," a three-county region dotted with small, rural communities where agriculture is the lifeblood and where hopes for economic revival have been buoyed in recent years by the prospects of renewable energy.

Construction of the Great River Soy plant was complete last August, and construction of a soybean crushing facility was slated to follow in spring 2008. Like the other biodiesel plants in the Missouri Bootheel, the Lilbourn plant had a production capacity of 5 million gallons of B100 (100 percent pure, neat biodiesel) per year. The company planned to make B100 exclusively from soybean oil.

Biodiesel plants have been emerging all over Missouri in the past few years, spurred in large part by the state's Qualified Biodiesel Producer Incentive Fund. The state legislature established the fund in 2002 to encourage Missouri biodiesel production by providing a 30-cent-per-gallon subsidy for the first 15 million gallons produced each year at facilities where at least 51 percent of owners are Missouri agricultural producers.

Big hurdle to clear

Great River Soy had a big hurdle to overcome even before it started operation. Soybean oil represents almost 90 percent of the cost of biodiesel production. For the 2007 season, many growers were swayed by the ethanol mandate to switch from soybeans to corn. In Missouri alone, the 2007 soybean yield was 11 million acres less than the 2006 crop. The smaller crop, coupled with increased demand for biodiesel, caused soybean prices to soar to almost 40 cents per pound by August 2007 — about double the price compared to 2006. (As of mid-April, soybeans were 62 cents per pound.)

Although Great River Soy general manager Stan Polivick was nervous at the time about those high prices, he knew that there would be challenges associated with any type of new agricultural venture. Industry experts were predicting that biodiesel demand would rise, and the higher prices that farmers would get for their soybeans was expected to help defray any potential start-up losses for farmer-owned biodiesel plants.

Great River Soy started operations in October 2007 and produced 94,000 gallons of B100 biodiesel that month. Unfortunately, the co-op had to halt production soon afterward.

As a start-up business, the company had only limited cash reserves. Because of the skyrocketing soybean prices, the amount of cash needed up front was quite high. Co-op leaders realized that the cash-flow cycle would be about seven weeks. This translated to a necessary cash reserve of more than $2 million.

This created an insurmountable cash-flow problem for the fledgling company, which didn't have enough reserves to outlast the funding gaps. Another issue was that all of the soybean oil used at the Lilbourn plant was being purchased from external providers, instead of from member/owners of the co-op. Other factors contributing to the shutdown were the low price of biodiesel at the pump, compared to the price of production, and high distribution costs.

In January 2008, Great River Soy converted to a limited liability company (LLC) in an effort to increase investments from members. However, revamping the business structure didn't improve the situation. Great River Soy Processing LLC is currently seeking a buyer.

Aftermath

Does Polivick still believe that the U.S. biodiesel industry has a viable future? "Yes," is his emphatic response. "Agriculture is always a rollercoaster," he says. "Right now is a difficult time."

Polivick believes that renewable energy producers must devise other ways of production besides relying on food-grade industry feedstocks. He predicts that that transition will take place over the coming years.

Currently, equipment and facilities are designed to process food-grade products. Once that equipment is redesigned to handle non-food feedstocks, Polivick believes that renewable energy will serve its purpose, have a long-term future and be "very viable, for sure." ■